AR20

annual report 1976

STEEP ROCK IRON MINES LIMITED

FRONT COVER

Our cover photo shows the Hogarth Open Pit looking West. At the bottom left, two 40R electric rotary drills are preparing a bench for blasting. Two 10 cubic yard electric shovels can be seen ready to load iron ore onto 100-ton haulage trucks.

Viewing the scene is Steep Rock's Safety Director, Don Gadd.

In 1976 Steep Rock had the lowest accident record in its 34-year history.

Photo by E. Lahtinen

STEEP ROCK IRON MINES LIMITED

AND ITS SUBSIDIARY COMPANIES

Second Quarter Report

FOR THE SIX MONTHS ENDED JUNE 30, 1976

CONSOLIDATED STATEMENT OF EARNINGS
Six Months Ended June 30, 1976
(with comparative figures for 1975)

	1976	1975*
Revenue - tons	449,909	369,173
INCOME		
Gross operating revenues	$10,591,971	$ 7,693,661
Royalty income	2,721,892	1,556,933
Investment income	127,923	297,372
	$13,441,786	$ 9,547,966
Loss for the period	$ (873,083)	$(1,829,623)
Per Share		
Net loss for the period	$(0.11)	$(0.23)

(subject to audit and year-end adjustments)

*The comparative figures for 1975 have been restated for certain year-end adjustments reflected in the December 31, 1975 financial statements (the most significant being the acceleration of depreciation, depletion and amortization charges to provide for the possible termination of operations by the end of 1979, rather than by the end of 1983).

The 1975 results were also affected by a labour strike which had lasted 43 days at June 30, 1975.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Six Months Ended June 30, 1976
(with comparative figures for 1975)

	1976	1975*
SOURCE OF FUNDS		
From operations		
Loss for the period	$ (873,083)	$(1,829,623)
Add (deduct) items not affecting working capital		
Depreciation	2,439,036	2,462,170
Depletion	154,354	92,349
(Gain) loss on disposal of fixed assets	(15,824)	1,208
Amortization of deferred development expenditures - net	616,828	479,193
Provision for termination costs	78,000	78,583
Total funds from operations	2,399,311	1,283,880
Sale of fixed assets	97,121	15,519
Net decrease in deferred overburden removal costs	23,615	606,923
Decrease in mortgages and sale agreements receivable	19,735	18,311
	2,539,782	1,924,633
APPLICATION OF FUNDS		
Development expenditures	27,922	71,403
Additions to fixed assets and housing	357,403	68,359
Long-term debt paid		
Mortgages payable	21,590	24,723
Other	249,521	61,750
	656,436	226,235
Increase in working capital	1,883,346	1,698,398
Working capital at beginning of year	9,719,213	10,045,024
Working capital at end of period	$11,602,559	$11,743,422

(subject to audit and year-end adjustments)

*As restated — see Note to Consolidated Statement of Earnings.

STEEP ROCK IRON MINES LIMITED

TO THE SHAREHOLDERS

The report to shareholders for the first quarter referred to reductions in plant production arising from the difficult ore supply situation and mechanical problems. Plant production of pellets in the second quarter, amounting to 312,130 tons, was also adversely affected by mechanical-electrical breakdowns. By the end of the period these problems had been overcome and the plant was running smoothly. The open pit mining operation improved considerably during the quarter.

The production problems experienced during the first six months of 1976, coupled with the effect of the unfavourable exchange rates of the U.S. dollar on revenues, and the accelerated write-offs to provide for possible termination of operations in 1979, resulted in a net loss of $873,083. Working capital in the same period increased by $1,883,346. A further increase in working capital is expected in the remainder of the year.

No firm decisions have been made with regard to the possible closing of operations in 1979. No announcement in this regard is expected before the end of this year.

Mr. F. R. Jones retired as President and Chief Executive Officer of the Company on August 1, 1976 and L. J. Lamb was elected to this office by the Board of Directors. At a recent meeting of the Board, the Directors expressed their appreciation to Mr. Jones for his efforts on behalf of the Company over the last eight years.

L. J. LAMB, PRESIDENT

August 3, 1976

PRINTED IN CANADA

STEEP ROCK IRON MINES LIMITED
ATIKOKAN, ONTARIO P0T 1C0

BOARD OF DIRECTORS

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*Member of the Executive Committee
†Member of the Audit Committee

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Oxford, Connecticut

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President & Chief Executive Officer

LOUIS ZUCCHIATTI
Vice President Finance & Secretary

PETER M. NIXON
Vice President

JOHN P. DUGGAN
Controller & Assistant Secretary

GORDON S. MacLEAN
Assistant Secretary

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CLARKSON, GORDON & CO.
Thunder Bay, Ontario

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and
CENTRAL NATIONAL BANK OF CLEVELAND
Cleveland, Ohio

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JOHN A. CAMPBELL
Toronto, Ontario

CONSULTING GEOLOGIST

M. W. BARTLEY
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GENERAL MANAGER

BRUCE W. TAYLOR

DIVISION MANAGERS

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JOHN P. DUGGAN, *Accounting*
H. EDWIN JACKSON, *Employee Relations and Assistant to the President*
COLIN F. MacIVER, *Mining*
LEON J. PERRIER, *Maintenance and Services*

OPERATIONS AND EXECUTIVE OFFICES

Atikokan, Ontario

ANNUAL MEETING

The Annual and Special General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held in the Manitoba Room of the Royal York Hotel in Toronto, Ontario, on April 12, 1977, at 2:00 p.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Net earnings for 1976 were $184,923, a considerable improvement over the previous year when a loss of $2,874,103 was reported. During 1975 there was a 10-week labour strike.

Earnings in 1976 were adversely affected by increased labour and energy costs and the exchange rate of the Canadian dollar to the United States dollar. Partially offsetting the above factors were increases in the selling price of pellets of six per cent in January 1976 and five per cent in August 1976. The financial statements for 1976 have been prepared on the basis of an accelerated write-off, as was the case in 1975, and as though a decision had been made to close operations in 1979.

Working capital improved by $6,298,308 during the year to $16,017,521 at year-end.

Pellet production was 1,335,870 tons. Shipments included 1,146,880 tons of pellets to The Algoma Steel Corporation, Limited and 159,172 tons of pellets to the Detroit Steel Corporation, plus 6,932 tons of red ore. At year-end there were 106,929 tons of pellets in stockpile to be shipped, which will be the final shipments under the contract with the Detroit Steel Corporation.

Employment was steady and averaged 613 employees throughout the year. It should be noted that the continued emphasis on safety resulted in the lowest annual accident frequency rate in the history of Steep Rock.

Remaining ore reserves of 5.1 million tons in the Hogarth ore zone at year-end are expected to be sufficient to provide pellet plant feed through most of 1979.

While no firm decisions have as yet been made with regard to continuation of Atikokan operations beyond 1979, Steep Rock has been reviewing various possibilities. Jointly with Algoma Steel, it has been examining possible development of an iron oxide deposit located at Bending Lake about 40 air miles from Atikokan, with a view to treating concentrates in the existing pelletizing plant at Atikokan. Also, Caland Ore Company Limited has indicated that it plans to terminate mining operations in the "C" ore zone in 1979. Significant reserves in the reasonably assured category remaining at that time, and available to Steep Rock, may be extractable by open pit methods. It is expected that these studies will be concluded, and a firm decision made, late in 1977.

Escalation in construction costs, the recession in the North American steel industry and other iron ore developments make it unlikely that it will become feasible for the Company to undertake the development of its large Lake St. Joseph ore bodies in the near future.

The policy of the Company has been to build up working capital to provide the necessary funds for the Lake St. Joseph project development. Even though it is now unlikely that funds will be required for this purpose in the near future, your Directors have decided that working capital should continue to be improved so that funds will be available to enable the Company to participate in other potential developments.

The major corporate development of 1976 was the acquisition by Canadian Pacific Investments Limited of approximately 68 per cent of the outstanding shares of Steep Rock.

To accommodate a smooth transition, the Board of Directors was temporarily increased in size from eleven to fifteen members. At the next Shareholders' Meeting, it will be proposed that the size of the Board of Directors be reduced to ten members.

During the year, Mr. Mark McKee, Senator William Benidickson, and Mr. Clare White retired from the Board of Directors. The valuable contribution of these men to Steep Rock over many years of close association is noted with appreciation. Appreciation is also extended to the entire Board of Directors for their interest and advice to Management during the year. Directors elected to the Board for the first time in 1976 include Messrs. John B. Barber, Mortimer S. Bistrisky, Josub David, William Moodie, Peter M. Nixon, Joseph D. R. Potter, and W. John Stenason.

During the year, Mr. F. Ray Jones retired as President and Chief Executive Officer of the Company. At the June meeting, the Board of Directors expressed appreciation to Mr. Jones for his efforts on behalf of the Company over the last eight years. Mr. L. J. Lamb was elected to the offices vacated by Mr. Jones. Also during the year, Mr. Louis Zucchiatti was appointed Vice President Finance and Secretary, Mr. Peter M. Nixon was appointed Vice President, and Mr. Mark McKee was appointed Honorary Chairman of the Board of Directors.

Appreciation is extended to those Steep Rock employees whose contributions and co-operation have permitted the improvements in 1976.

L. J. LAMB
PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

February 8, 1977

STEEP ROCK IRON MINES LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)

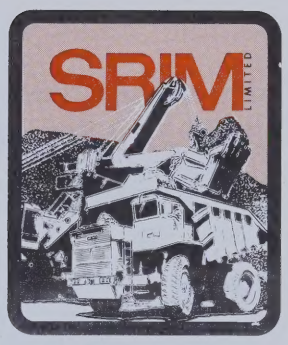
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1976

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1975)

ASSETS

	1976	1975
CURRENT		
Cash and deposit certificates	$ 6,563,501	$ 521,453
Short-term investments, at cost which approximates market value	2,073,588	5,399,705
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced (Note 1(b))	3,281,652	2,685,725
Other	1,808,148	1,204,289
Ore (finished and in process), at the lower of cost or net realizable value	5,914,256	3,856,791
Supplies, at cost	1,923,246	2,310,255
Prepaid expenses	167,158	181,748
Total current assets	21,731,549	16,159,966
FIXED ASSETS AND HOUSING		
Mining properties at Atikokan (Notes 1(d), 2 and 5(a))	4,386,393	4,386,393
Less accumulated depletion	3,473,567	3,126,731
	912,826	1,259,662
Plant, buildings and equipment, at cost (Notes 1(d) and 2)	51,773,199	51,499,523
Less accumulated depreciation	39,389,663	34,892,022
	12,383,536	16,607,501
Housing		
Properties owned, at cost less accumulated depreciation (1976 – $554,827; 1975 – $494,969) (Note 1(d))	614,310	661,148
Mortgages and sale agreements receivable	164,568	216,140
	778,878	877,288
Total fixed assets and housing	14,075,240	18,744,451
OTHER ASSETS AND DEFERRED CHARGES		
Deferred overburden removal costs (Notes 1(d), 2 and 5(b))	9,100,950	11,825,969
Deferred development expenditures (Notes 1(d), 2 and 5)		
Atikokan	4,337,816	5,847,700
Lake St. Joseph	1,396,054	1,355,130
Bending Lake	123,725	–
Investment in other mining company, at cost (Note 6)	231,483	231,483
Sundry	158,995	121,823
	15,349,023	19,382,105
	$51,155,812	$54,286,522

(See accompanying notes to consolidated financial statements)



LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
CURRENT		
Accounts payable and accrued liabilities	$ 3,081,207	$ 3,775,890
Accrued interest	61,379	75,076
Mortgage bond principal due within one year	2,571,442	2,589,787
Total current liabilities	5,714,028	6,440,753
NON-CURRENT		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 – U.S. $9,616,000 (excluding 1977 principal instalment of U.S. $2,548,000 included in current liabilities) (Notes 1(c) and 7)	9,856,400	12,530,625
Mortgages payable on employee housing	69,604	116,455
Provision for termination costs (Notes 2 and 10(b))	314,336	157,168
	10,240,340	12,804,248
DEFERRED		
Advance payments received on sale of interest in mining properties (Note 5(d))	230,000	255,000
SHAREHOLDERS' EQUITY		
Capital		
Authorized		
10,000 preference shares of $100 each		
10,666,666 common shares of $1 each		
Issued		
8,063,652 common shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings (Note 7)	23,233,117	23,048,194
	34,971,444	34,786,521
On behalf of the Board		
L. J. Lamb, Director		
N. Edmonstone, Director	$51,155,812	$54,286,522

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1976
(WITH COMPARATIVE FIGURES FOR 1975)

	1976	1975
INCOME		
Gross operating revenues		
From production for Algoma Steel Corporation (Note 1(b))	$27,975,612	$20,722,591
Other sales revenue	3,106,134	2,018,478
	31,081,746	22,741,069
Royalty income (Note 3)	5,391,080	3,543,336
Investment income	401,808	533,433
Gain on disposal of fixed assets	90,527	93,814
	36,965,161	26,911,652
COSTS AND EXPENSES		
Operating costs, other than those shown below	27,898,606	20,828,472
Administrative and corporate expenses	1,289,533	1,194,803
Interest on bonds	881,021	1,022,361
Depreciation (Note 2)	5,053,852	4,974,760
Depletion (Note 2)	346,836	233,132
Amortization of deferred development expenditures (Note 2)	1,509,884	1,153,500
Sundry exchange losses (gains)	(199,494)	26,426
	36,780,238	29,433,454
EARNINGS (LOSS) before income taxes and extraordinary items	184,923	(2,521,802)
Income taxes (Note 8)	115,000	—
EARNINGS (LOSS) before extraordinary items	69,923	(2,521,802)
EXTRAORDINARY ITEMS		
Income tax credit arising from carry forward of prior years' write-offs	115,000	—
Write-off of investment in other mining company	—	(352,301)
NET EARNINGS (LOSS) for the year	$ 184,923	$(2,874,103)
PER SHARE		
Earnings (loss) before extraordinary items	$0.01	$(0.31)
Net earnings (loss) for the year	$0.02	$(0.36)

(See accompanying notes to consolidated financial statements)

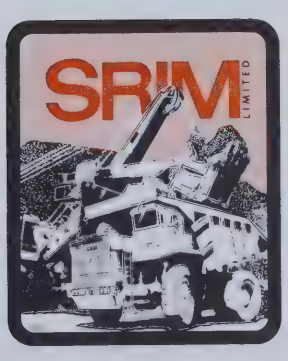
STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1976
(WITH COMPARATIVE FIGURES FOR 1975)

	1976	1975
Balance at beginning of year	$23,048,194	$25,922,297
Add net earnings (loss) for the year	184,923	(2,874,103)
Balance at end of year	$23,233,117	$23,048,194

(See accompanying notes to consolidated financial statements)



STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1976
(WITH COMPARATIVE FIGURES FOR 1975)

	1976	1975
SOURCE OF FUNDS		
From operations		
Earnings (loss) before income taxes and extraordinary items	$ 184,923	$(2,521,802)
Add (deduct) items not affecting working capital		
Depreciation	5,053,852	4,974,760
Depletion	346,836	233,132
Amortization of deferred development expenditures	1,509,884	1,153,500
Net reduction of deferred overburden removal costs	2,725,019	—
Gain on disposal of fixed assets	(90,527)	(93,814)
Provision for termination costs	157,168	157,168
Total funds from operations	9,887,155	3,902,944
Repayment of advances to other mining companies	—	13,000
Sale of fixed assets	305,311	354,980
Decrease in mortgages and sale agreements receivable	45,034	52,753
	10,237,500	4,323,677
APPLICATION OF FUNDS		
Development expenditures		
Bending Lake	123,725	—
Lake St. Joseph (net of amounts received from other participants)	65,924	241,875
Additions to fixed assets and housing	991,295	180,254
Net addition to deferred overburden removal costs	—	1,577,061
Long-term debt paid or included in current liabilities		
Mortgage bonds	2,674,225	2,611,700
Mortgages payable	46,851	59,573
Other	37,172	(20,975)
	3,939,192	4,649,488
Increase (decrease) in working capital	6,298,308	(325,811)
Working capital at beginning of year	9,719,213	10,045,024
WORKING CAPITAL at end of year	$16,017,521	$ 9,719,213
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	$ 6,042,048	$ 28,909
Short-term investments	(3,326,117)	(700,310)
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced	595,927	277,490
Other	603,859	(838,494)
Ore	2,057,465	1,739,688
Supplies	(387,009)	194,301
Prepaid expenses	(14,590)	30,467
	5,571,583	732,051
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	694,683	(1,004,420)
Accrued interest	13,697	10,767
Mortgage bond principal due within one year	18,345	(64,209)
	726,725	(1,057,862)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 6,298,308	$ (325,811)

(See accompanying notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are those that are generally accepted in Canada. Except for translation of long-term debt (see Note 1(c)) they are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of consolidation

The accompanying statements are drawn up on a consolidated basis to include the accounts of the Company and its subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited (all of which are wholly owned).

(b) Statement presentation of joint venture operations

Under agreements entered into in 1965 certain of the Company's open pit ore reserves at Atikokan were leased to a joint venture participant, The Algoma Steel Corporation, Limited (now an affiliated company), and the Company was appointed operator to mine and process the ore on Algoma's behalf. As in prior years, the 1976 financial statements have been drawn up to reflect in "gross operating revenues" the proceeds received from Algoma for the ore produced, and in "costs and expenses" the full costs of mining and processing the ore.

(c) Exchange translation

The Company's operating revenues and royalty income, which are based on U.S. dollar prices, are reflected in the statement of earnings at their Canadian dollar exchange equivalent for the month in which earned.

U.S. dollar current assets and current liabilities (including long-term debt maturing within one year) are translated to Canadian dollars on the basis of year-end exchange rates (U.S. $1 = Can. $1.0092 at December 31, 1976; U.S. $1 = Can. $1.0164 at December 31, 1975).

Long-term debt (mortgage bonds) has been translated on the basis of U.S. $1 = Can. $1.025, this being the rate adopted following the unpegging of the Canadian dollar on May 31, 1970. Under current United States accounting principles such long-term debt would be translated at year-end rates, rather than at the May 31, 1970 exchange rate. Had U.S. translation principles been followed the amount shown for long-term debt at December 31, 1976 in Canadian dollars would have been lower by $151,933 (lower by $105,133 at December 31, 1975), and net income for 1976 would be higher by $46,800 (lower by $394,193 in 1975).

(d) Depreciation, depletion and amortization

Depreciation is provided on the straight-line basis at rates designed to write off the cost of the related assets over their estimated useful lives. As explained in Note 2, depreciation charges with respect to plant, buildings and equipment have been accelerated with a view to having the cost of these assets written off by the end of 1979. Housing assets (which are expected to have a continuing value after 1979) are being written off at an annual rate of five per cent.

Depletion of mining properties, and amortiziation of deferred development expenditures, are provided on the basis of tons of ore produced (including royalty tonnage – Note 3) in relation to the estimated assured and reasonably assured ore reserves from which production or royalty revenue is expected to be received in the period to December 31, 1979. (See Note 2).

Deferred overburden removal costs are charged to production on the basis of tons of ore mined, and at a rate which will amortize such costs over the period to December 31, 1979.

2. UNCERTAINTIES AS TO FUTURE OPERATIONS AT ATIKOKAN

In the 1975 financial statements it was noted that, for a number of reasons, operations based on the ore zones presently available to Steep Rock appear to be uneconomic after 1979. While certain studies are being carried on regarding the possibilities of transporting concentrates from other ore bodies for pelletizing in the existing plant, because of the uncertainties that now exist with respect to operations after 1979, depreciation, depletion and amortization charges since January 1, 1975 have been accelerated with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the end of 1979. In addition the Company has commenced making annual provisions ($157,168 in both 1976 and 1975) to cover certain costs (see Note 10(b)) which might arise in 1979 if operations are terminated in that year and which would not be recoverable from sales or other revenues.

The Company's current projections indicate that earnings in the period 1977-1979 should be sufficient to cover these higher write-offs and provisions. These write-offs and provisions will affect reported income but not cash flow. The projections are subject to some uncertainties that have yet to be resolved, i.e. they assume (a) a revised mining, production and termination program that will require continuing discussions with, and the agreement of, the joint venture participant; (b) that future increases in costs will be covered by compensating increases in ore prices; (c) that operations can be maintained continuously during the period 1977-1979, without prolonged interruption from strikes or other causes; and (d) that no further losses will be sustained by the Company as a result of termination of operations in 1979 other than those that have currently been identified and are being provided for.

3. ROYALTY INCOME

The Company's "C" ore zone is leased to Caland Ore Company Limited in consideration for the payment of annual royalties by Caland based on a percentage of the market value of ore produced. The lease agreement specifies a minimum of 2,000,000 tons annually on which royalties shall be payable, which minimum tonnage is subject to further adjustment under certain circumstances as specified in the agreement. The amount of royalty received in 1976 and 1975 was based on the minimum of 2,000,000 tons less adjustments (1976 - 14,568 tons; 1975 - 641,818 tons) for the periods during which Caland's mining operations were suspended as a result of work stoppages. Steep Rock does not agree with the method used by Caland in calculating such adjustments and believes it is entitled to additional royalty revenue for the years 1975 and 1976. The matter is presently under discussion between the two companies and may be submitted to arbitration. The amount of any additional revenue that may be received cannot be determined at this time, and no accrual therefor has been reflected in the accounts.

The lease may be terminated by Caland on December 31 in any year upon giving at least one year's advance notice; were two years' advance notice to be given, the minimum royalty tonnage for the final year of operations would be reduced to 1,000,000 tons. Caland has indicated that it expects to continue mining operations until 1979, so that royalty revenue is expected to continue until at least that year.

4. POSITION RE OTHER ORE CONTRACT

In the 1975 financial statements it was noted that the Company had no assured source of ore at Atikokan to fulfill all of its remaining commitments to supply pellets to a customer under a contract which runs to December 31, 1977. The Company has now reached a satisfactory agreement with the customer concerned for quantities to be supplied during the remainder of the contract, so that no provision for possible loss is required.

5. MINING PROPERTIES AND RELATED DEFERRED EXPENDITURES

(a) Mining properties at Atikokan are carried at purchase cost of $2,459,456 plus a valuation adjustment made in 1943 of $1,926,937, for a total of $4,386,393. Depletion provided to December 31, 1976 totals $3,473,567.

(b) Deferred overburden removal costs represent the unamortized balance of stripping costs relating to the joint venture mining operations referred to in Note 1(b). The changes in this account during 1976 and 1975 may be summarized as follows:

	1976	1975
Balance deferred at beginning of year	$11,825,969	$10,248,908
Add stripping expenditures during current year	9,835,882	8,330,428
	21,661,851	18,579,336
Deduct amount charged to production on basis of tons of ore mined	12,560,901	6,753,367
Balance deferred at end of year	$ 9,100,950	$11,825,969

(c) Deferred development expenditures relating to Atikokan operations represent the remaining unamortized balance of pre-production expenditures incurred with respect to the properties presently being mined by the Company and Caland Ore Company Limited.

(d) Deferred development expenditures relating to Lake St. Joseph consist of the following:

Purchase cost of claims		$ 276,711
Expenditures on exploration, development and feasibility studies		
Expended to December 31, 1967 (and charged to operations)		865,800
Expended during period 1968-1975		2,192,654
Expended in 1976		40,944
Total expenditures to December 31, 1976		3,376,109
Less		
Portion expended and written off prior to December 31, 1967	$ 865,800	
Received or receivable from other participants in respect of expenditures to December 31, 1976	844,255	
Payments received for interest acquired by joint venture participant in certain of the Lake St. Joseph properties to December 31, 1976 (see below)	270,000	1,980,055
		$1,396,054

Under the joint venture arrangements referred to in Note 1(b) the joint venture participant is entitled to acquire eventual ownership of certain of the Company's Lake St. Joseph claims in consideration for $500,000, the rate of acquisition of such ownership interest being determined by the relationship between the volume of ore shipped under the main contract to any point of time and the total tonnage covered by the contract. The equity interest earned by the joint venture participant to December 31, 1976 under this formula was approximately 54 per cent. Accordingly, of the total sum of $500,000 (all of which had been received by December 31, 1976), $270,000 has been credited against the Lake St. Joseph deferred development expenditures, and the remainder is carried on the balance sheet as "Advance payments received on sale of interest in mining properties".

Escalation in construction costs, the recession in the North American steel industry, and other iron ore developments make it unlikely that it will become feasible for the Company to undertake the development of the Lake St. Joseph properties in the near future. The development of the properties at some future date will be dependent on the completion of satisfactory arrangements for production, fuel supply, sales and financing.

(e) The deferred development expenditures relating to Bending Lake represent the amounts expended by the Company to December 31, 1976 on feasibility studies (which are being conducted jointly with Algoma Steel) with respect to the possible development of an iron oxide deposit located approximately 40 air miles from Atikokan, and the possible treatment of concentrates therefrom in the existing plant at Atikokan.

6. INVESTMENT IN OTHER MINING COMPANY

The amount of $231,483 represents the cost of the Company's 11 per cent share interest in International Iron Ores Limited, a company which either directly, or through a subsidiary, holds exploration permits (expiring in 1980) covering certain iron ore deposits on the west side of Ungava Bay. While no substantial development work at the properties has been carried out for some years, the Company believes the deposits still have development potential.

7. MORTGAGE BONDS AND DIVIDEND RESTRICTIONS

The trust indenture relating to the first mortgage sinking fund bonds (as amended in 1971 and 1973) requires fixed principal repayments of U.S. $2,548,000 on December 1 of each year, together with additional principal payments (calculated at the rate of U.S. $1.41 per ton) to the extent that shipments of pellets to the joint venture participant in any twelve month period ending September 30 exceed 1,100,000 tons.

The trust indenture, which contains specific mortgage and floating charge provisions, also imposes certain restrictions on the payment of dividends and the reduction or redemption of capital stock. The effect of such restrictions (which are calculated by reference to consolidated working capital and consolidated net income accumulated since January 1, 1970) would be to restrict the balance of retained earnings available for dividends as at December 31, 1976 to approximately $3.2 million.

The Anti-Inflation Act and Regulations thereto (see Note 9) also impose restrictions on dividends. The amount of dividends that could be declared and paid during the 12 months ended October 13, 1977 may not exceed $328,128.

8. INCOME TAXES

The amount of current and prior years' write-offs remaining for carry forward against future years' income (not subject to any expiry date) is estimated at approximately $5.8 million.

9. ANTI-INFLATION PROGRAM

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the Company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The Company does not presently anticipate that the controls on prices and profit margins will adversely affect its revenues. The restrictions on shareholders' dividends are outlined in Note 7.

10. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service pension obligation is estimated at $429,500 at December 31, 1976. All of this amount relates to the new pension plan negotiated in the Collective Agreement with the Company's unionized employees in 1975, and which replaced the plan previously in effect. The Company is charging the related costs against operations at an annual rate based on a funding period of fifteen years (from January 1, 1975) pursuant to the provisions of the Ontario Pension Benefits Act.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to the Ontario Hydro Electric Power Commission of $92,357 annually until November 1, 1989. In the event that the Company ceases its operations at Atikokan in 1979 it will enter into negotiations with Ontario Hydro with a view to discontinuing such payments. However, the existing liability for payments after 1979 is being covered by the annual provisions referred to in Note 2.

(c) The contingent liability with respect to guarantees of mortgages on employees' housing is estimated at approximately $33,000. The Company is also committed under certain outstanding sales agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1976 being estimated at approximately $350,000.

(d) Annual rentals under equipment leases presently in effect amount to $781,200 in 1977, $687,338 in 1978, $387,649 in 1979, $120,748 in 1980, $102,258 in each of the years 1981 to 1984, and $8,522 in 1985. There are no lease commitments extending beyond 1985. In the event of termination of operations in 1979 the Company believes that the disposal or sub-leasing value of the equipment at that time should be as great as the remaining lease payments required. In addition the Company leases its data processing equipment at an annual cost of approximately $42,000. This lease can be terminated upon 90 days' notice by either party.

The total leasing costs charged against 1976 operations amounted to $824,300 ($626,549 in 1975).

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of directors and senior officers amounted to $406,875 in 1976 ($370,890 in 1975).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Note 2 to the financial statements refers to the fact that depreciation, depletion and amortization charges have been accelerated, as from January 1, 1975, with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the end of 1979, and that the Company has commenced making annual provisions to cover certain costs that may arise in 1979 if operations are terminated in that year. The Company's projections indicate that earnings in the period 1977-1979 should be sufficient to cover the higher write-offs and provisions required in those years, but the projections are subject to a number of uncertainties as referred to in the note.

In our opinion, subject to the sufficiency of earnings during the years 1977-1979 to cover the higher write-offs and provisions referred to above, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THUNDER BAY, ONTARIO
February 8, 1977

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS

10 YEARS IN REVIEW*

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
				(Thousands of Dollars)						
Income										
Gross operating revenues	31,082	22,741	21,628	19,620	18,730	18,330	17,967	17,624	15,100	8,801
Royalty income	5,391	3,543	3,683	3,335	2,968	4,937	4,935	3,924	4,348	3,950
Investment income	402	534	769	563	423	434	480	473	424	310
Gain on fixed asset disposals	90	94	6	76	—	—	—	80	—	—
	36,965	26,912	26,086	23,594	22,121	23,701	23,382	22,101	19,872	13,061
Costs and expenses										
Operating costs, etc.	28,989	22,051	19,839	18,229	16,247	14,991	14,597	12,554	9,711	6,346
Interest	881	1,022	1,154	1,331	1,474	1,707	1,888	2,066	2,168	932
Depreciation, depletion and amortization	6,910	6,361	3,780	3,592	3,584	3,789	4,096	4,311	2,685	3,012
	36,780	29,434	24,773	23,152	21,305	20,487	20,581	18,931	14,564	10,290
Earnings (loss) before income taxes and extraordinary items	185	(2,522)	1,313	442	816	3,214	2,801	3,170	5,308	2,771
Income taxes	115	—	510	—	78	1,145	990	1,304	2,382	1,024
Earnings (loss) before extraordinary items	70	(2,522)	803	442	738	2,069	1,811	1,866	2,926	1,747
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs	115	—	510	48	78	1,145	372	—	—	—
Exchange credits less exchange losses (net of related tax)	—	—	—	—	—	—	1,300	—	—	—
Gain (provision for loss) on investments	—	(352)	—	—	—	—	545	(452)	—	400
Write-off of land and plant facilities no longer required (net of related tax)	—	—	—	—	—	—	(483)	—	(217)	—
Write-off of deferred development expenditures (net of related tax)	—	—	—	—	—	—	—	(35,448)	—	—
Special payment received from Ontario Hydro Electric Power Commission (net of related tax)	—	—	—	291	—	—	—	—	—	—
	115	(352)	510	339	78	1,145	1.734	(35,900)	(217)	400
Net earnings (loss)	185	(2,874)	1,313	781	816	3,214	3,545	(34,034)	2,709	2,147
Per share										
Earnings (loss) before extraordinary items	0.01	(0.31)	0.10	0.05	0.09	0.26	0.22	0.23	0.36	0.22
Net earnings (loss)	0.02	(0.36)	0.16	0.10	0.10	0.40	0.44	(4.22)	0.34	0.27
Dividends	—	—	—	—	0.15	0.15	0.15	0.15	0.30	0.30
Iron ore and pellets										
Tons (000)										
Sales	1,313	1,065	1,362	1,442	1,469	1,415	1,501	1,563	1,440	1,004
Royalty ore	1,985	1,358	1,937	2,000	1,922	3,000	3,000	2,225	2,500	2,326
Total tons	3,298	2,423	3,299	3,442	3,391	4,415	4,501	3,788	3,940	3,330

* 1969 and prior years' results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes and to certain changes in revenue and expense classifications.

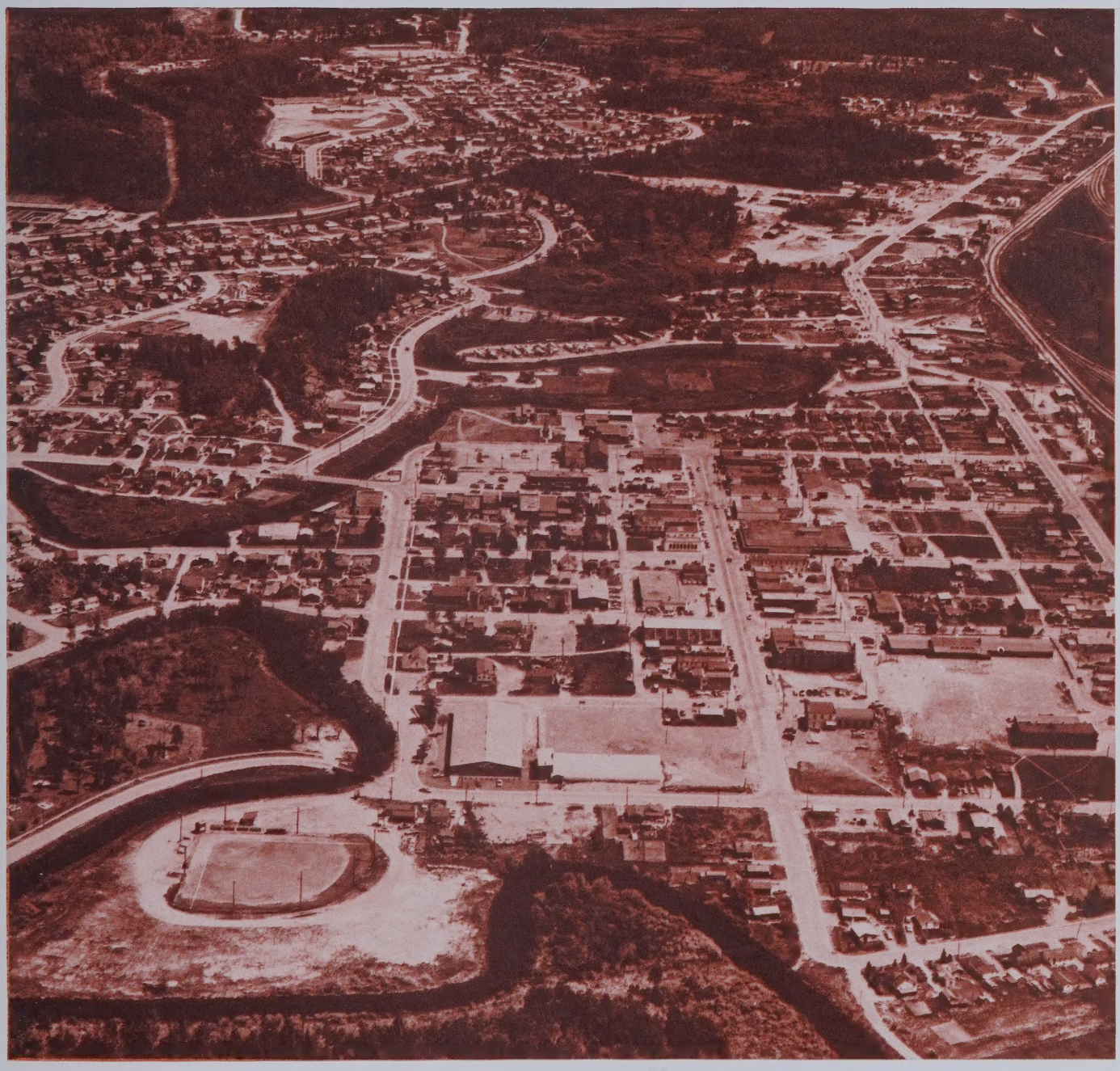


Photo by Geo. Hunter

ATIKOKAN, ONTARIO – *Home of Steep Rock Iron Mines, a modern community of 6000 connected by paved highway with Thunder Bay to the East and Winnipeg and the U.S. Border crossing of International Falls to the West.*

Atikokan has many of the facilities of the larger centres, including excellent recreation complexes for golfing, curling, and skiing.

Atikokan was incorporated as a township in 1953. The main industry is iron mining with two operations, Steep Rock Iron Mines Limited and Caland Ore Company Limited, situated seven miles North.

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